

THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY

OF

SHARON G. SCOTT

SEPTEMBER 2, 2008



**DOCKET NO. 2008-142-W/S
APPLICATION OF GOAT ISLAND WATER
AND SEWER COMPANY, INCORPORATED
FOR AN INCREASE IN ITS RATES AND
CHARGES FOR THE PROVISION OF WATER
AND SEWER SERVICES AND APPROVAL OF
MANAGEMENT AGREEMENT**

DIRECT TESTIMONY OF SHARON G. SCOTT

FOR

THE OFFICE OF REGULATORY STAFF

DOCKET NO: 2008-142-W/S

**IN RE: APPLICATION OF GOAT ISLAND WATER AND SEWER COMPANY,
INCORPORATED FOR AN INCREASE IN ITS RATES AND CHARGES FOR
THE PROVISION OF WATER AND SEWER SERVICES AND APPROVAL OF
MANAGEMENT AGREEMENT**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND
OCCUPATION.**

A. My name is Sharon G. Scott. My business address is 1401 Main Street,
Suite 900, Columbia, South Carolina, 29201. I am employed by the South
Carolina Office of Regulatory Staff ("ORS") as an Audit Manager.

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND
EXPERIENCE.**

A. I received a Bachelor of Science Degree in Business Administration, with
a major in Accounting from the University of South Carolina in May 1983 and a
Master of Business Administration degree from Webster University in May 2000.
I began my employment as an auditor with the Public Service Commission of
South Carolina (the "Commission" or "PSC") in July 1983 and during my
employment I participated in various cases involving the regulation of electric,
gas, telephone, water and wastewater utilities. In January 2005, I began

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1401 Main Street, Suite 900
Columbia, SC 29201**

1 employment with the ORS where I continue my audit duties in the regulation of
2 utility companies.

3 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
4 **PROCEEDING?**

5 **A.** The purpose of my direct testimony is to set forth my findings and
6 recommendations resulting from ORS's examination of the application of Goat
7 Island Water and Sewer Company, Inc. ("Goat Island", "Company" or
8 "Applicant") for an increase in its rates and charges for the provision of water and
9 sewer services and approval of management agreement. The initial application
10 was filed on April 3, 2008.

11 **Q. WAS THE COMPANY'S APPLICATION COMPLETE WHEN**
12 **INITIALLY FILED?**

13 **A.** No. On April 8, 2008, ORS filed with the PSC a petition to dismiss the
14 case without prejudice due to the Company's failure to provide the required
15 exhibits for its application. The Commission granted ORS's Motion to Dismiss
16 without prejudice. However, the order to dismiss was suspended until April 23,
17 2008, which gave the Company additional time to file the supporting financial
18 information.

19 **Q. DID GOAT ISLAND FILE ADDITIONAL FINANCIAL INFORMATION**
20 **BY APRIL 23, 2008?**

21 **A.** Yes they did. In accordance with the Commission's Order No. 2008-
22 294, under this docket, April 23, 2008 became the effective date of the
23 Company's filing since the missing exhibits were filed on this date.

1 **Q. WAS THIS INFORMATION USEFUL IN VERIFYING THE COMPANY'S**
2 **APPLICATION?**

3 **A.** No. ORS initially made several attempts to verify the per application
4 amounts to the Company's books and records. On numerous occasions over the
5 next two months, ORS extended deadlines, executed a joint Memorandum of
6 Understanding, and agreed to an extension of testimony filing dates. ORS spent
7 numerous hours working with the Company and their accountant in an effort to
8 verify the expenses the Company claimed for its cost of service. Despite these
9 extraordinary measures, the Company was still unable to produce financial books
10 and records which supported the revenues and costs of service presented in its
11 application in this docket.

12 **Q. DID THE COMPANY ENGAGE A NEW ACCOUNTANT TO EVALUATE**
13 **ITS RECORDS?**

14 **A.** Yes. In mid-July 2008, the Company engaged another accountant to
15 compile, using source documents provided by the Company, a balance sheet,
16 income statement, general ledger, and various exhibits related to the application.

17 **Q. DID THE EXHIBITS AND SUPPORTING BOOKS AND RECORDS**
18 **PRODUCED BY THE SECOND ACCOUNTANT SUPPORT THE**
19 **FINANCIAL INFORMATION FILED BY THE COMPANY IN ITS**
20 **APPLICATION?**

21 **A.** No. The second accountant produced "Revised Per Books" amounts
22 which are adequately supported by proper documentation, but still do not support
23 the cost of service included in the Company's application.

1 **Q. WAS ORS ABLE TO PERFORM AN EXAMINATION OF THE**
2 **“REVISED PER BOOKS” AMOUNTS?**

3 **A.** Yes. ORS performed an examination of the revised per books amounts
4 which were supported by a balanced general ledger. ORS performed its normal
5 examination procedures and sampling methods for rate case applications of water
6 and wastewater companies. After verification of the revised per book amounts,
7 ORS made several accounting and pro forma adjustments to normalize the
8 Company’s operations as described in the following exhibits.

9 **Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR DIRECT**
10 **TESTIMONY.**

11 **A.** I have attached the following exhibits to my direct testimony relating to
12 the Application:

- 13 • Audit Exhibit SGS-1: Operating Experience and Operating Margin
- 14 • Audit Exhibit SGS-2: Explanation of Adjustments
- 15 • Audit Exhibit SGS-3: Computation of Depreciation and Amortization
- 16 Expenses
- 17 • Audit Exhibit SGS-4: Computation of Income Taxes

18 These exhibits were either prepared by me or were prepared under my direction
19 and supervision in compliance with recognized accounting and regulatory
20 procedures for water and wastewater utility rate cases.

1 **Q. PLEASE DESCRIBE THE FORMAT OF AUDIT EXHIBIT SGS-1 AND**
2 **ELABORATE ON THE CALCULATIONS.**

3 **A.** Audit Exhibit SGS-1 shows Goat Island Water and Sewer Company,
4 Inc.'s operating experience and operating margin for water and wastewater
5 operations for the test year ended June 30, 2007. The exhibit's format shows the
6 Application Per Books, Revised Per Books and ORS's proposed accounting and
7 pro forma adjustments necessary to normalize the results of Goat Island's test
8 year operations.

9 Column (1) shows the Application Per Books calculated by Goat Island for the
10 test year ended June 30, 2007. The net operating income of \$29,545 was based on
11 total operating revenues of \$177,681 less total operating expenses of \$148,136.
12 The net operating income less interest expense of \$7,648 resulted in total income
13 for return of \$21,897. The operating margin of 12.32% was calculated by dividing
14 the total income for return by the total operating revenues.

15 Column (2) shows the differences between the Application Per Books and the
16 Revised Per Books. The differences represent unreconciled differences between
17 the books and records prepared by the Company's accountant and the amounts
18 included in the Company's application.

19 Column (3) shows the Revised Per Books by adding columns (1) and (2). The net
20 operating income of \$20,676 was based on total operating revenues of \$193,044
21 less total operating expenses of \$172,368. The net operating income less interest
22 expense of \$18,327 resulted in total income for return of \$2,349. The operating

margin of 1.22% was calculated by dividing the total income for return by the total operating revenues.

Column (4) shows ORS's proposed accounting and pro forma adjustments designed to normalize the Revised Per Books. An explanation of each adjustment is contained in Audit Exhibit SGS-2.

Column (5) shows ORS's calculation of a normalized test year for Goat Island by adding columns (3) and (4). The net effect of ORS's proposed accounting and pro forma adjustments resulted in total income for return of \$17,332 and an operating margin of 8.92%.

Column (6) reflects the Applicant's proposed increase recalculated by ORS and the calculation of taxes associated with the proposed increase. An explanation of each adjustment is contained in Audit Exhibit SGS-2.

Column (7) shows the effect of the Applicant's proposed rate increase by adding columns (5) and (6). The net effect of the Applicant's proposed rate increase would result in total income for return of \$61,858 and an operating margin of 24.49%.

Q. PLEASE EXPLAIN THE ADJUSTMENTS IN AUDIT EXHIBIT SGS-2.

A. The following adjustments are listed at Audit Exhibit SGS-2 under "Adj. #". For comparative purposes, ORS and Applicant's adjustments are both presented in Audit Exhibit SGS-2.

Adjustments 1-3 – Details of these adjustments are shown on Exhibit WJM-3 of ORS Water/Wastewater Program Manager, Willie Morgan's testimony.

1 Adjustment 4 – ORS proposes to remove (\$2,415) for gas expenses not related to
2 utility operations. The disallowed charges related to non-utility gas charges of
3 \$437 and other gas expenses of \$1,978 not identified as diesel gas for the work
4 trucks. ORS did not adjust for an estimated increase in gas expenses, requested
5 by the Company, since they were not known and measurable expenses.

6 Adjustment 5 – ORS proposes to remove a bank late fee charge of \$100, credit
7 card late payment fees of \$37, and credit card finance charges of \$72 for an
8 adjustment of (\$209).

9 Adjustment 6 – ORS proposes to reclassify outside labor of (\$2,694) for the part-
10 time bookkeeper who worked on a contract basis during the test year. The
11 bookkeeper, who also performs various office duties, is now being paid weekly as
12 a Company employee. The wages for this employee are annualized in
13 Adjustment #14.

14 Adjustment 7 – ORS proposes to remove unsupported and personal supplies of
15 \$488 and expenses outside the test year of \$173 for a total adjustment of (\$661).

16 Adjustment 8 – ORS proposes to amortize \$18,497 for non-recurring legal
17 expenses over a 5-year period. The yearly amortization was \$3,699 less the per
18 book amount of \$18,600 for an adjustment of (\$14,901). These non-recurring legal
19 expenses were related to the consolidation of several utility companies with Goat
20 Island Water and Sewer Company, Inc. in Docket No. 2007-85-W/S.

21 Adjustment 9 – ORS proposes to remove \$225 for lawn care services outside the
22 test year and \$287 for lawn care and exterminator services for personal
23 residences. The total adjustment was (\$512).

1 Adjustment 10 – ORS proposes to remove supplies related to non-utility
2 operations of \$4,984 and out-of-test year supplies of \$747 for a total adjustment
3 of (\$5,731).

4 Adjustment 11 – ORS proposes to remove fees of (\$11,559) paid to the SC
5 Department of Health and Environmental Control (SCDHEC) in support of the
6 Safe Drinking Water Act. The amount is removed from operating expenses since
7 it is a pass-through amount on the customers' bills.

8 Adjustment 12 – ORS proposes to remove a penalty of (\$26) paid to the SC
9 Department of Revenue for late payment of gross receipts taxes.

10 Adjustment 13 – ORS proposes to adjust the gross receipts taxes associated with
11 revenues after ORS's accounting and pro forma adjustments. ORS calculated the
12 adjustment by multiplying total gross revenues after accounting and pro forma
13 adjustments by the PSC and ORS gross receipts factor of .0074178 less the per
14 book amount of \$1,259.

15 Adjustment 14 – ORS proposes to annualize wages for the two Company
16 employees. The first employee is the bookkeeper/office assistant who was a
17 contract employee during the test year. This employee's annualized salary
18 amounted to \$18,200. The second employee assists in daily visits to the plants,
19 performs other general labor, and assists the owners as needed. The annualized
20 salary for this employee was \$13,000. ORS computed total test year salaries of
21 \$31,200 less the per book amount of \$16,475 for an adjustment of \$14,725.

22 Adjustment 15 – ORS proposes to adjust payroll taxes associated with the
23 annualized salaries. ORS calculated total payroll taxes of \$2,673 for FICA, FUTA

1 and SUTA taxes. From this amount, ORS subtracted the per book payroll taxes of
2 \$1,647 for an adjustment of \$1,026.

3 Adjustment 16 – ORS proposes to remove telephone expenses of \$300 due to a
4 computational error, \$600 for out-of-test year expenses, and \$400 related to
5 telephone expenses for personal phone service. The total adjustment amounted to
6 (\$1,300).

7 Adjustment 17 – ORS proposes to annualize depreciation expense for utility plant-
8 in-service. The Depreciation schedule reflects the depreciation expense per
9 application and shows adjustments to the various accounts, resulting in the
10 Adjusted Depreciable Plant in Service. The depreciation rates used in the schedule
11 reflect the useful lives recommended by the ORS Water/Wastewater Department.
12 In addition, ORS made adjustments to remove vehicles that were sold, add vehicles
13 used for the utility, and remove equipment that could not be identified as utility
14 plant in service. The land associated with the various systems was also
15 appropriately classified and loan costs associated with the purchase of the Sigfield
16 system was amortized over 30 years, the average life of those assets. ORS
17 computed total depreciation expense of \$15,666 less the per book amount of
18 \$19,435 for an adjustment of (\$3,769).

19 Adjustment 18 – ORS proposes to include \$24,000 for a management fee as
20 requested in the Management Fee Agreement between Goat Island Water and
21 Sewer Company, Inc. and Professional Irrigation Company (Timothy P. Oliver
22 and Billie Ann Oliver, the Manager). According to the agreement, Professional
23 Irrigation agrees to provide two persons, to manage Goat Island's systems. Some

1 of the duties include managing day-to-day operations, making financial decisions,
2 performing system repairs as required, maintaining local, state and federal laws,
3 handling SCDHEC and PSC matters and customer complaints, receiving and
4 accounting for all monthly payments, paying bills and taxes, and performing other
5 duties for state and federal regulations. The manager, Timothy Oliver, has a Class
6 “D” Water Treatment and a Class “G” Water Distribution Operator license.

7 Adjustment 19 – ORS proposes to remove \$221 for non-related business meals,
8 \$190 for non-business travel and a contribution of \$25 for a total adjustment of
9 (\$436).

10 Adjustment 20 – ORS proposes to include amortized rate case expenses for the
11 test year, which include legal and accounting expenses. ORS adjusted for actual
12 rate case expenses of \$24,647 which were billed through August 14, 2008. This
13 amount is amortized over a five-year period for an annual expense of \$4,929.

14 Adjustment 21 – ORS proposes to adjust income taxes associated with ORS’s
15 accounting and pro forma adjustments. See Audit Exhibit SGS-4.

16 Adjustment 22 – ORS proposes to calculate customer growth using net operating
17 income after ORS’s accounting and pro forma adjustments. Only water
18 customers experienced growth and the factor was computed by multiplying net
19 operating income by the proportion of water customers (86.61%) of total
20 customers. The customer growth factor of .00895, provided by the
21 Water/Wastewater Department, was applied to this amount to compute the
22 adjustment.

1 Adjustment 23 – ORS proposes to remove test year interest expense of (\$18,327).

2 The interest on notes payable included in the test year is related to loans of the
3 Company's owner and not loans of Goat Island Water and Sewer Company, Inc.

4 Adjustments 24 – 25 - Details of ORS's calculation of the proposed rate increase
5 is shown on Exhibit WJM-3 of ORS Water/Wastewater Program Manager, Willie
6 Morgan.

7 Adjustment 26 – ORS proposes to adjust gross receipts taxes associated with the
8 applicant's proposed increase by using the gross receipts factor of .0074178.

9 Adjustment 27 – ORS proposes to adjust income taxes associated with the
10 applicant's proposed increase. See Audit Exhibit SGS-4.

11 Adjustment 28 – ORS proposes to adjust water customer growth associated with
12 the applicant's proposed increase by using the water allocation (86.61%) and the
13 customer growth factor of .00895 as referenced in Adjustment #22.

14 **Q. PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS.**

15 **A.** Audit Exhibit SGS-3 shows the computation of the depreciation and
16 amortization expense adjustments. Plant assets were depreciated using
17 depreciation rates based on the useful lives determined by the ORS
18 Water/Wastewater Department. Audit Exhibit SGS-4 shows the computation of
19 the state and federal income taxes based on taxable income after ORS's proposed
20 accounting and pro forma adjustments and after the Applicant's proposed increase
21 recalculated by ORS. A state tax rate of 5% and tiered federal tax rates were used
22 to calculate the income taxes.

1 **Q. DOES ORS OPPOSE THE MANAGEMENT AGREEMENT FEE**
2 **PROPOSED BY THE COMPANY?**

3 **A.** No. ORS reviewed the Management Agreement between Goat Island
4 Water and Sewer Company, Inc. and Professional Irrigation Company. The
5 agreement details various services to be provided to the utility, all of which are
6 important to the efficient operations of the company. ORS finds \$2,000 per
7 month to be reasonable compensation to manage the operations of the Company's
8 six systems. ORS has proposed to include the yearly amount of \$24,000 as shown
9 in adjustment # 18.

10 **Q. DOES ORS HAVE ANY RECOMMENDATIONS FOR THE COMPANY?**

11 **A.** Yes. In accordance with the Memorandum of Understanding between
12 ORS and Goat Island, dated June 20, 2008, the Company has agreed to:

- 13 a. Establish and maintain an accounting system and separate bank account
14 for Goat Island Water and Sewer Company, Inc.
- 15 b. Not implement Phase II rates until it has implemented the NARUC
16 Uniform System of Accounts and such accounting system has been
17 operating for a period of no less than 12 months.
- 18 c. Transfer all assets held in Mr. Tim Oliver's name and listed in schedule H
19 of the current Application to Goat Island Water and Sewer Company, Inc.

1 **Q. WHAT IS THE RESULTING OPERATING MARGIN AFTER APPLYING**
2 **ORS'S CALCULATION OF THE APPLICANT'S PROPOSED RATE**
3 **INCREASE?**

4 **A.** Based on ORS's proposed accounting and pro forma adjustments and
5 after the Applicant's proposed increase, recalculated by ORS, the resulting
6 operating margin is 24.49%, as shown on Audit Exhibit SGS-1.

7 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

8 **A.** Yes it does.

Goat Island Water and Sewer Co., Inc.
Docket No. 2008-142-W/S
Operating Experience and Operating Margin
For the Test Year Ended June 30, 2007

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Application Per Books	Differences	Revised Per Books	ORS's Proposed Accounting & Pro forma Adjustments	ORS's Proposed Accounting & Pro forma Adjustments	Applicant's Proposed Increase Recalculated By ORS	After Applicant's Proposed Increase Recalculated By ORS
Operating Revenues							
Water Fees	\$ 177,681	(19,197)	158,484	1,014 (A)	159,498	57,846 (U)	217,344
Sewer Fees	0	34,560	34,560	90 (A)	34,650	446 (U)	35,096
Access Fees	0	0	0	168 (B)	168	0	168
Total Operating Revenues	\$ 177,681	15,363	193,044	1,272	194,316	58,292	252,608
Operating Expenses							
Ads	\$ 200	(200)	0	0	0	0	0
Gas	5,117	7,360	12,477	(2,415) (C)	10,062	0	10,062
Bank Charges	252	422	674	(209) (D)	465	0	465
Outside Labor	3,830	4,639	8,469	(2,694) (E)	5,775	0	5,775
Insurance - Vehicles	939	277	1,216	0	1,216	0	1,216
Maintenance	2,863	(2,863)	0	0	0	0	0
Office Supplies & Postage	3,507	375	3,882	(661) (F)	3,221	0	3,221
Accounting	975	1,485	2,460	0	2,460	0	2,460
Legal	14,500	4,100	18,600	(14,901) (G)	3,699	0	3,699
Rent (sprayfield & equip.)	3,180	320	3,500	0	3,500	0	3,500
Repairs	7,270	1,951	9,221	(512) (H)	8,709	0	8,709
Op. Supplies - Materials & Supplies	11,501	4,956	16,457	(5,731) (I)	10,726	0	10,726
Taxes - PSC, Utility & License	1,459	11,951	13,410	(11,403) (J)	2,007	432 (V)	2,439
Taxes - Property	4,000	(3,281)	719	0	719	0	719
Salary - Non-owner	16,475	0	16,475	14,725 (K)	31,200	0	31,200
Payroll Taxes	1,318	329	1,647	1,026 (L)	2,673	0	2,673
Telephone	904	5,449	6,353	(1,300) (M)	5,053	0	5,053
Water Analysis	16,211	2,781	18,992	0	18,992	0	18,992
Safe Drinking Water Act	8,375	(8,375)	0	0	0	0	0
Utilities	20,808	(3,319)	17,489	0	17,489	0	17,489
Depreciation	20,875	(1,440)	19,435	(3,769) (N)	15,666	0	15,666
Dues	175	30	205	0	205	0	205
Permits	3,402	(3,402)	0	0	0	0	0
Management Fee	0	0	0	24,000 (O)	24,000	0	24,000
Unclassifieds (Miscellaneous)	0	687	687	(436) (P)	251	0	251
Rate Case Expenses	0	0	0	4,929 (Q)	4,929	0	4,929
Income Taxes (State & Federal)	0	0	0	4,100 (R)	4,100	13,676 (W)	17,776
Total Operating Expenses	\$ 148,136	24,232	172,368	4,749	177,117	14,108	191,225
Net Operating Income (Loss) for Return	\$ 29,545	(8,869)	20,676	(3,477)	17,199	44,184	61,383
Add: Customer Growth	0	0	0	133 (S)	133	342 (X)	475
Less: Interest Expense	7,648	10,679	18,327	(18,327) (T)	0	0	0
Total Income (Loss) for Return	\$ 21,897	(19,548)	2,349	14,983	17,332	44,526	61,858
Operating Margin	12.32%		1.22%		8.92%		24.49%

Goat Island Water and Sewer Co., Inc.
Docket No. 2008-142-W/S
Explanation of Adjustments
For the Test Year Ended June 30, 2007

AUDIT EXHIBIT SGS-2
Page 1 of 2

Revenues and Expenses	Adj.#	Description	\$ ORS	\$ Applicant
<u>ORS's Proposed Accounting and Pro forma Adjustments</u>				
(A) Water Fees	1	To normalize customer billings for the test year for water fees.	1,014	0
(A) Sewer Fees	2	To normalize customer billings for the test year for sewer fees.	90	0
(B) Access Fees	3	To include access fee revenue for Gin Pond customers.	168	0
(C) Gas	4	To remove non-utility gas expenses. ORS did not adjust for an estimated increase in gas expenses since they were not known and measurable.	(2,415)	1,383
(D) Bank Charges	5	To remove late payment fees and credit card finance charges.	(209)	0
(E) Outside Labor	6	To reclass contract labor for employee now working full-time. ORS adjusts for additional salaries in adjustment #13.	(2,694)	6,570
(F) Office Supp. & Postage	7	To remove non-utility supplies.	(661)	0
(G) Legal	8	To amortize non-recurring legal expenses of \$18,497 over 5 years.	(14,901)	0
(H) Repairs	9	To remove expenses outside the test year and other non-utility services.	(512)	0
(I) Materials & Supplies	10	To remove non-utility materials and supplies and out-of-test year expenses.	(5,731)	0
(J) DHEC Fees	11	To remove pass-through DHEC Fees for the Safe Drinking Water Act.	(11,559)	0
Gross Receipts Tax	12	To remove penalty for late payment.	(26)	
Gross Receipts Tax	13	To adjust taxes to reflect accounting and pro forma adjustments using a factor of .0074178.	182	0
		<u>Total Taxes - PSC, Utility, & License</u>	(11,403)	0
(K) Salary Non-Owner	14	To annualize wages to include two full-time employees.	14,725	0
(L) Payroll Taxes	15	To adjust payroll taxes for annualized wages.	1,026	0
(M) Telephone	16	To remove non-utility expenses, correct a math error and remove out-of-test year expenses.	(1,300)	0
(N) Depreciation	17	To adjust depreciation and amortization on all fixed assets.	(3,769)	0
(O) Management Fee	18	To include Management Fee amount for proposed agreement.	24,000	0
(P) Miscellaneous	19	To remove non-utility related travel and business meals and a charitable contribution.	(436)	0
(Q) Rate Case Expenses	20	To include rate case expenses of \$24,647 amortized over 5 years.	4,929	0
(R) Income Taxes (State and Federal)	21	To adjust income taxes to reflect accounting and pro forma adjustments.	4,100	0
(S) Customer Growth	22	To adjust for water customer growth.	133	0
(T) Interest Expense	23	To remove nonallowable interest expense.	(18,327)	0

Goat Island Water and Sewer Co., Inc.
Docket No. 2008-142-W/S
Explanation of Adjustments
For the Test Year Ended June 30, 2007

AUDIT EXHIBIT SGS-2
Page 2 of 2

Revenues and Expenses	Adj.#	Description	\$ ORS	\$ Applicant
<u>Applicant's Proposed Increase Recalculated by ORS</u>				
(U) Water Fees	24	To adjust customer billings for ORS's calculation of the proposed rate increase for water fees.	57,846	59,460
(U) Sewer Fees	25	To adjust customer billings for ORS's calculation of the proposed rate increase for sewer fees.	446	446
(V) Gross Receipts Tax	26	To adjust gross receipts taxes associated with the proposed rate increase using a factor of .0074178.	432	0
(W) Income Taxes (State and Federal)	27	To adjust income taxes associated with the proposed rate increase.	13,676	0
(X) Customer Growth	28	To adjust for water customer growth.	342	0

Goat Island Utilities, Inc.
Docket No. 2008-142-W/S
Computation of Depreciation and Amortization Expenses
For the Test Year Ended June 30, 2007

Year Acquired	Description	Depreciation Expense Per Application	Reclass Land	Remove Non-Utility Plant	Amort. of Loan Costs	Adjusted Depreciable Plant In Service	W/W Service Life	Rate	Expense
		\$	\$	\$	\$	\$	years	%	\$
Fixed Assets Per Application:									
07/01/95	Water/Sewage Plant	157,674	(20,000)			137,674	27	3.70%	5,094
09/01/95	Fencing	2,950				2,950	15	6.67%	197
06/01/96	Water Plant Additions	32,021				32,021	27	3.70%	1,185
09/14/96	Computer	1,208		(1,208)		0	0	0.00%	0
03/01/97	Water Plant Improvements	4,000				4,000	27	3.70%	148
01/02/97	4" Mixer	306				306	15	6.67%	20
10/14/97	Printer	356		(356)		0	0	0.00%	0
03/28/98	New Well/Pump	20,000				20,000	17	5.88%	1,176
02/20/99	Fencing	1,900				1,900	15	6.67%	127
01/02/99	Monitor	358		(358)		0	0	0.00%	0
06/28/00	Equipment	600				600	15	6.67%	40
10/01/01	Treatment Improvements	240				240	27	3.70%	9
05/01/03	Office Equipment	1,974		(1,974)		0	0	0.00%	0
12/11/04	Truck (Sold)	9,000				9,000	6	16.67%	1,500
07/01/96	Ditch Witch	8,000		(8,000)		0	0	0.00%	0
02/28/98	Office Furniture	848		(848)		0	0	0.00%	0
02/28/98	Air Conditioner	275		(275)		0	0	0.00%	0
06/01/00	Ditch Witch	13,000		(13,000)		0	0	0.00%	0
06/02/04	Telephone	424				424	10	10.00%	42
08/14/04	Aerators	2,154				2,154	12	8.33%	179
08/16/04	Trailer	535				535	6	16.67%	89
01/01/78	E&R Water System	59,096	(12,000)			47,096	27	3.70%	FD
02/01/96	Farm Equipment	25,000		(25,000)		0	0	0.00%	0
06/01/05	Equipment	5,932				5,932	15	6.67%	396
06/01/05	Equipment	800				800	15	6.67%	53
07/01/83	Sigfield Tank & Wells	60,000			(1,132)	58,868	20	5.00%	FD
07/01/83	Sigfield Water Lines	60,000			(1,132)	58,868	40	2.50%	1,472
07/01/83	Sigfield Land	15,000	(14,716)		(284)	0	0	0.00%	0
01/01/92	Wyboo Tanks & Equipment	23,500				23,500	20	5.00%	1,175
01/02/92	Wyboo Pipes	104,500	(15,000)			89,500	40	2.50%	2,238
01/03/92	Wyboo Water Main	14,422				14,422	38	2.63%	379
Total Adjusted - Per Application		626,073	(61,716)	(51,019)	(2,548)	510,790			15,519
Adjusted By ORS									
12/11/04	Truck (Sold)					(9,000)	6	16.67%	(1,500)
04/30/04	Chevy Truck					12,062	6	16.67%	2,011
02/01/00	GMC Truck					13,000	6	16.67%	FD
06/01/05	Equipment - Unsupported					(5,932)	15	6.67%	(396)
06/02/05	Equipment - Unsupported					(800)	15	6.67%	(53)
Balance						520,120			15,581
Reclass Land									
07/01/95	Goat Island Land					20,000			
01/01/00	E & R Land					12,000			
02/01/07	1 Lot Bendon Drive					7,358			
02/01/07	1 Lot Bendon Drive					7,358			
01/01/92	Wyboo Land					15,000			
Total Land						61,716			
Amort. of Loan Costs									
02/02/07	Sigfield System - Amort. of Loan costs over average life of plant @ 30 years					2,548			85
Total Fixed Assets, Depreciation & Amortization Expense						584,384			15,666
									Per Book Depreciation Expense
									19,435
									Depreciation & Amortization Expense Adjustment
									(3,769)

FD= Fully Depreciated

Company did not capitalize tap fees, therefore ORS did not adjust for amortization of Contributions In Aid of Construction.

Goat Island Water and Sewer Co., Inc.
Docket No. 2008-142-W/S
Computation of Income Taxes
For the Test Year Ended June 30, 2007

	After ORS's Proposed Accounting & Pro forma Adjustments	After Applicant's Proposed Increase Recalculated by ORS
Total Operating Revenues	\$ 194,316	\$ 252,608
Less: Operating Expenses	173,017	173,449
Less: Interest Expense	<u>0</u>	<u>0</u>
State Taxable Income	21,299	79,159
Less: State Income Taxes @ 5%	<u>1,065</u>	<u>3,958</u>
Federal Taxable Income	20,234	75,201
Federal Income Taxes:		
1st \$50,000 @ 15%	3,035	7,500
Next \$25,000 @ 25%		6,250
Next \$25,000 @ 34%	<u> </u>	<u>68</u>
Total State and Federal Income Taxes	4,100	17,776
Less: Income Taxes after ORS's Proposed Accounting and Pro forma Adjustments	<u>0</u>	<u>4,100</u>
ORS's Income Taxes (State and Federal) Adjustment	<u>\$ 4,100</u>	<u>\$ 13,676</u>